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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner
BRENDA BURNS
Commissioner

Arizona Corporation Commission

DOCKETED

MAY 31 2011

DOCKETED BY

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IN THE MATTER OF THE APPLICATION
OF GRAHAM COUNTY UTILITIES, INC.
FOR A RATE INCREASE

DOCKET NO. G-02527A-09-0088

IN THE MATTER OF THE APPLICATION
OF GRAHAM COUNTY UTILITIES, INC.
GAS DIVISION FOR APPROVAL OF A
LOAN

DOCKET NO. G-02527A-09-0032

IN THE MATTER OF THE APPLICATION
OF GRAHAM COUNTY UTILITIES, INC.
WATER DIVISION FOR A RATE
INCREASE

DOCKET NO. W-02527A-09-0201

IN THE MATTER OF THE APPLICATION
OF GRAHAM COUNTY UTILITIES, INC.
WATER DIVISION FOR APPROVAL OF A
LOAN

DOCKET NO. W-02527A-09-0033

IN THE MATTER OF THE APPLICATION
OF GRAHAM COUNTY ELECTRIC
COOPERATIVE, INC. FOR APPROVAL OF
A LOAN GUARANTEE

DOCKET NO. E-01749A-09-0087

Decision No. **72396**

Open Meeting
May 24 and 25, 2011
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1
2 1. Graham County Utilities, Inc. (“Graham” or “the Cooperative”) is engaged in
3 providing natural gas service within portions of Arizona, pursuant to authority granted by the
4 Arizona Corporation Commission.

5 2. Graham is a rural natural gas cooperative in southeastern Arizona, with
6 approximately 5,255 gas customers as of August 2010.

7 3. On August 30, 2010, Graham filed for Commission approval of its Demand-Side
8 Management (“DSM”) plan and programs for its Gas Division. The application was filed in
9 compliance with Decision No. 71690.

10 Background

11 4. Pursuant to Decision No. 71690, Graham was required to file proposed DSM
12 programs for its Gas Division for Commission consideration. The order also established a DSM
13 adjustor mechanism to allow recovery of DSM costs, “in the event the Cooperative [Graham]
14 develops one or more Commission-approved DSM programs.”

15 Proposed DSM Programs

16 5. Weatherization. In its application, Graham proposes to pay Residential and Non-
17 residential customers an incentive of up to \$250 for materials used to weatherize a home or
18 business, such as caulking, weather stripping and insulation. The program would be administered
19 through a third-party non-profit organization or organizations, the Southeastern Arizona
20 Community Unique Services (“SEACUS”) and/or a local community action organization. (Final
21 determination on the organization or organizations that would administer Graham’s weatherization
22 funding has not yet been made.) Low-income customers would receive a majority of the
23 weatherization funding. Only verified Graham members would be eligible, and incentives would
24 be paid only once material costs are documented.

25 6. Graham projects that the Cooperative would be able to assist in weatherizing up to
26 213 homes, calculating this number based on a budget of approximately \$21,000 and an average
27 per-home incentive of \$100. Based on the savings from weatherizing 213 homes, Graham
28 estimates that it would save approximately 11,600 therms per year (13.6 monthly therms x 4

1 heating months x approximately 213 weatherized homes). This represents 0.44 percent of the
2 approximately 2.67 million therms sold annually by Graham.

3 7. Staff concludes that, while the per-home therm savings projected by Graham are
4 reasonable, the 213-home maximum participation rate is unduly optimistic, and the associated
5 savings are unlikely to be realized. Low-income weatherization programs are generally more
6 difficult to deliver than other types of DSM programs, and often include multiple measures,
7 complex diagnostic testing and repairs, or replacements, all of which tend to limit the number of
8 homes that can be weatherized each year. Although Graham is proposing to provide supplemental
9 funding to third-party organizations already specializing in such programs, rather than directly
10 delivering weatherization measures itself, those organizations would still have to go through the
11 complex weatherization delivery process.

12 8. Natural Gas Energy Efficiency Education and Advertisement. Graham has also
13 proposed a program designed to promote weatherization and educate the Cooperative's members
14 about natural gas energy efficiency. For this purpose, the Cooperative would use direct mailers,
15 bill stuffers, Graham's website, radio and newspaper advertisements, handouts, annual meetings
16 and the county fair. Any DSM monies not used would go to the weatherization program.

17 9. The small size of the proposed Education and Advertisement budget would
18 significantly limit Graham's ability to promote energy efficiency or advertise the new
19 weatherization program, particularly with respect to mass market advertising. Any increase,
20 however, would require either a transfer from the limited weatherization or administration budgets,
21 or an increase in funding.

22 Proposed Budget

23 10. The total DSM portfolio budget proposed by Graham is shown below:

Program/Category	Proposed Budget	Percentage of Budget
Weatherization program	\$21,316.81	85%
Natural Gas Energy Efficiency Education and Advertisement	\$1,253.93	5%
Administration/R&D	\$2,507.86	10%
Estimated Total Annual Budget	\$25,078.60	100%

11. The Administration/R&D category reflects funding that would be retained by Graham for internal administration expenses, such as verifying customer eligibility, processing rebates and reporting DSM program activities to the Commission. Graham is in discussion with the potential third-party organizations to provide DSM funding for weatherization materials without administrative costs being assessed by the organization(s). Under such an agreement, Graham would provide supplemental funding for organizations specializing in weatherization programs, and the Cooperative's DSM funds would be allocated to incentives for the weatherization materials such as caulking, weather-stripping and insulation.

Proposed DSM Adjustor Mechanism and Adjustor Rate

12. Decision No. 71690, which ordered that Graham develop DSM programs, specified a per-therm charge. The Cooperative, however, proposed a fixed charge of \$0.35 per month for Residential customers and \$1.50 per month for Non-residential customers. According to the Cooperative, the fixed charge was proposed out of concern over the limits of Graham's current billing software to accommodate per-unit charges in the future. Although Graham currently has the ability to incorporate per-therm DSM charges for Graham's gas and electric utilities, if any more per-unit fees or taxes are levied by a governmental agency in the future, the Cooperative would be forced to undergo an expensive (approximately \$356,000) upgrade of its software.

13. In communications with Staff, Graham has suggested a tailored per-therm charge with caps designed to mitigate the impact of the DSM adjustor charge on Graham's larger-use customers (\$0.02 per therm, with a \$0.50 Residential cap and a \$5.00 Non-residential cap). This structure shifts a larger proportion of the DSM costs to smaller users, but Graham noted that its gas division has experienced significant losses and negative equity in recent years, and expressed concern that a high DSM surcharge with no cap might cause large Non-residential customers to switch from natural gas to another fuel.¹ In communications with Staff, the Cooperative stated: "If this were to happen then [Graham] could lose customers and further exacerbate the poor financial condition of the cooperative to the detriment of the rest of the gas customers."

¹ As an example of an uncapped DSM charge, Graham cited a Non-residential customer which would, on a simple per-therm basis, experience a DSM surcharge of approximately \$217 during a peak usage month.

Gas Energy Efficiency Rules

14. At the time of Decision No. 71690 (May 2010), gas energy efficiency rules were not yet in place, nor had it been determined which gas utilities would be subject to those rules. Under the energy efficiency rules for gas utilities now in effect, Graham would not be required to meet the energy efficiency standard for gas utilities because it is not a Class A utility. With an annual operating revenue of approximately \$3.8 million, Graham is well below the \$5 million in annual operating revenues required to qualify as a Class A utility.

Recommendations

15. Based on Staff's review of Decision No. 71690, Staff believes the Company is in compliance with the decision, but recommends that Graham not pursue DSM programs at this time. The reasons are listed and summarized below:

- DSM programs are not financially feasible for Graham at this time;
- A DSM adjustor charge for Graham could result in either fuel switching by large customers or cost-shifting to smaller customers;
- It is unlikely that Graham will be able to achieve its projected participation and savings levels based on its current economic resources;
- The current gas energy efficiency rules do not apply to Graham.

16. Staff recommends that the Graham DSM adjustor rate be set at zero and that the DSM requirements of Decision No. 71690 be waived and reexamined in Graham's next rate proceeding.

CONCLUSIONS OF LAW

1. Graham is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Graham and over the subject matter of the application.

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3. The Commission, having reviewed the application and Staff's Memorandum dated April 12, 2011, concludes that it is not in the public interest to approve the proposed Graham DSM programs.

ORDER

IT IS THEREFORE ORDERED that the Graham County Utilities, Inc. DSM adjustor rate be set at zero and that the DSM requirements of Decision No. 71690 be waived and reexamined at Graham's next rate proceeding.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN

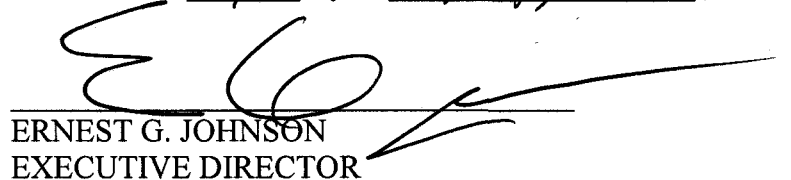

COMMISSIONER

COMMISSIONER

COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 31st day of MAY, 2011.


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: 

DISSENT: 

SMO:JMK:sms/RM

1 SERVICE LIST FOR: Graham County Utilities
2 DOCKET NOS. G-02527A-09-0088, et al.

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4 Director of Regulatory and Strategic Services
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GARY PEARCE - Chairman
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ARIZONA CORPORATION COMMISSION

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May 27, 2011

Arizona Corporation Commission
Docket Control
Phoenix, AZ

Re: Dissent
GRAHAM COUNTY UTILITIES, INC.
G-02527A-09-0088, et al.

I am docketing this letter to explain why I dissented from the Commission's decision in this matter. In my opinion, the Commission's failure to approve the demand side management ("DSM") plan submitted by Graham County Utilities, Inc. ("Graham" or "Company") will deprive Graham's customers of a much-needed benefit: the opportunity to take advantage of programs that will reduce their energy use and the associated costs. These opportunities are especially important to customers living in rural areas.

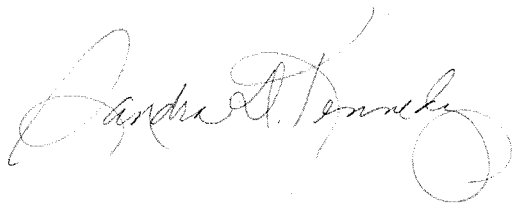
I want to applaud the Company for submitting a DSM plan to benefit its customers. This action was commendable, especially because the recently approved Energy Efficiency ("EE") Rules do not apply to Class B utilities, such as Graham. I realize that Graham had been ordered in its last rate case (before the adoption of the EE Rules) to propose a DSM program. But in light of the outcome of the EE rulemaking, the Company might have sought to have that order amended (pursuant to A.R.S. § 40-252). Instead, Graham complied with that decision and submitted a workable DSM proposal. It signaled to me that Graham was willing to move forward with its customers' best interests at heart.

I believe that it is in the public interest for all utilities—even Class B utilities—to offer modest DSM programs so that customers statewide will have the opportunity to reduce their energy use and associated costs. I emphatically agree with the Southwest Energy Efficiency Project ("SWEEP") that all utilities—regardless of size—should offer some level of DSM service so that their customers can mitigate rising energy costs.

In these difficult economic times, I know that it is challenging to find resources for programs; however, I truly believe—and research has demonstrated—that DSM programs pay great dividends beyond their initial costs. Furthermore, there were suggestions offered to address Staff's concerns regarding the costs of administering the DSM programs and of effectively reaching Graham's customers; unfortunately, those suggestions were not adopted.

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I encourage Graham to continue to seek ways to offer DSM programs to its members, and I hope that those who do not yet fully embrace energy efficiency will come to appreciate the customer benefits associated with these programs.

A handwritten signature in cursive script, appearing to read "Sandra D. Kennedy". The signature is written in dark ink and is positioned above the printed name.

Sandra D. Kennedy
Corporation Commissioner
Graham County Utilities, Inc.
G-02527A-09-0088, et al.

1 I am writing this dissent on the principle that it's important for Graham County Electric
2 Cooperative to begin working on energy efficiency programs as soon as possible. As we've seen
3 in polls, Arizona ratepayers understand that energy efficiency is cost effective and that the
4 benefits of programs like weatherization last for decades. Once a home has been retrofitted, the
5 energy savings last as long as the home has residents.

6 I do understand that Graham is a small cooperative and that Graham County has seen an
7 economic downturn like the rest of Arizona, but I feel it's important to start programs such as
8 this to help as many citizens as possible with energy efficiency retrofits.

9 In addition, low-income customers would receive a majority of the benefits, and
10 incentives would be paid only after material costs are documented.

11 From the Office of Commissioner Newman